Global Communications Limited

Annual Report 1980

DIRECTORS AND OFFICERS

Global Communications Limited
81 Barber Greene Road, Don Mills, Ontario M3C 2A2

DIRECTORS

* I.H. Asper, Q.C., Chairman of the Board and Chief Executive Officer, CanWest Capital Corporation (Merchant Bankers)
Leonard E. Barlow, Retired Investment Dealer
John S. Elder, Partner, Fraser & Beatty (Barristers & Solicitors)
* Seymour Epstein, P.Eng. Cons., Chairman of the Executive Committee of the Corporation
Claude C. Frenette, Chairman of the Board, Interallied Management and Development Group Ltd. (Management Corporation)
David L. George, President, Imagineering Limited (Engineering Consultants)
* Duncan J. Jessiman, Q.C., Partner, Pitblado & Hoskin (Barristers & Solicitors)
* Paul Morton, President of the Corporation
* Gurston I. Rosenfeld, President, Guardian Growth Financial Services Limited — Vice-President & Director, Guardian Capital Group Limited (Merchant Bankers)
Gerald W. Schwartz, President, CanWest Capital Corporation (Merchant Bankers)
* Arni C. Thorsteinson, President, Shelter Canadian Holdings Limited (Diversified Investments)

OFFICERS

I.H. Asper, Q.C., Chairman of the Board
Seymour Epstein, P.Eng. Cons., Chairman of the Executive Committee
Paul Morton, President, Global Communications Limited
David L. Mintz, President, Global Television Network
John G. Craig, C.A., Vice-President, Finance and Administration
Rodger A. Hone, Vice-President, Marketing
Donald W. MacPherson, Vice-President, Production
William A. Stewart, Vice-President, Programming
John S. Elder, Secretary
K. Cameron Johnson, C.A., Treasurer
Allan W. Bayley, Controller

AUDITORS

Clarkson Gordon, Toronto, Ontario

SOLICITORS

Fraser & Beatty, Toronto, Ontario

TRANSFER AGENTS

Guaranty Trust Company of Canada, Toronto, Ontario

Global Communications Limited owns and operates the Global Television Network

Global Communications Limited is a constrained share corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

* Members of the Executive Committee

REPORT TO THE SHAREHOLDERS

We are pleased to present the 7th Annual Report of Global Communications Limited. The results for the year reflect the discontinuance of our Canadian record operations and the sale of our American record company. In our report to you a year ago, we indicated our dissatisfaction with our involvement in the record industry. Accordingly, in June of 1980, our Canadian operations were terminated, and by fiscal year end we had disposed of the Tennessee based American company.

Financial Highlights

For the year ended August 31, 1980, consolidated revenue of the Company from continuing operations increased from $34,292,820 to $42,799,681. During the same period, expenses increased from $30,562,259 to $40,162,253. After allowing for interest on income debentures and the provision for income tax, the loss from continuing operations before extraordinary items was $1,607,867.

In addition, a loss of $3,959,069, net of anticipated future income tax recoveries of $2,100,000, was recorded on losses arising from the termination of our record businesses.

During the year, there was an extraordinary gain of $2,967,041 from the recovery of income taxes as a result of prior period losses, and this gain reduced the net loss to $2,599,895 compared with a loss of $452,393 for 1979.

Television Broadcasting and Production Division

The television broadcasting and production division of the Company continues to perform well in a difficult economic environment. The cost of programming, which has constantly increased over the past number of years, continued that same trend in fiscal 1980. There is some evidence that for the 1981 fiscal year there will be a moderation in the rate of increase. This division had an operating profit before tax and income debenture interest of $5,860,471, compared to $5,086,000 for the previous year.

Record Division

In our report to you a year ago, we advised that we were "reviewing our long range plan regarding your Company's involvement in the record industry". In the course of that review, we made further assessments of the industry as a whole and of our Company's involvement in particular. We became convinced that there had been such material changes from the time when we first entered the field, that we had no alternative but to dispose of our interest in the most expeditious fashion or in the alternative to terminate the record operations.

It became evident that the most appropriate action for our Canadian operation was to shut it down, dispose of the inventory and, in an orderly fashion, totally close down the business. These steps were commenced early in 1980, and completed by the end of June.

During the same time period, discussions were proceeding for the sale of our Tennessee subsidiary, Tee Vee Records, Inc. and, in late August, a sale was completed. Full provision for the write down of our investment in the record businesses have been reflected in the fiscal 1980 financial statements.

As previously mentioned in the Financial Highlights of this report, a loss of $3,959,069 net of anticipated income tax recoveries was recorded in relation to termination of the Company's involvement in the record businesses. This compares to a total provision for this loss in our interim report for the nine months ended May 31, 1980 of $4,039,000 — an estimated loss on disposal of the Canadian operations of $1,134,000, after relief from 1974 Series B income debenture interest of $1,015,000 which would not have to be paid, and after anticipated future income tax recoveries, along with $1,890,000 in operating losses from the remaining part of the record division which was not sold until the end of the fiscal year.

Soccer Division

During 1980, average attendance on a per game basis increased to almost 15,000 from 1979's average of approximately 12,000. While the growth was significant and has resulted in professional soccer being regarded as one of Toronto's major summer spectator sports, it was still far short of the level required to result in a profitable operation.

Research indicates that the audience for professional soccer should grow at a compounded rate of approximately 25% over the next five years.

With the growth in attendance should come increased audience for television broadcasts of games. The prospect of televised games was one of the reasons behind our acquisition of control of Prosoccer Limited, which operates the Blizzard soccer club.

In November 1980, the Blizzard also commenced indoor soccer with its home games being played at Maple Leaf Gardens. The results to date are most encouraging in supporting our belief that this will also develop into a significant winter spectator sport.

In the financial area, the soccer division suffered a loss of $3,223,043. This compares to a loss of $1,355,000 in fiscal 1979; however, it must be noted that 1979 was only a partial operating year.

Steps are now being taken to reduce this rate of loss by more aggressive marketing and by reducing expenditures.

Programming Developments

A year ago we reported to you on our decision to upgrade our foreign programming. This policy, and the results that have flowed from it, have proven the validity of this decision. Five of the top ten U.S. network shows are currently being shown on Global. They are: (1) "60 Minutes", (2) "Alice", (3) "The Jeffersons", (4) "One Day at a Time", and (5) "Flo".

The British and Australian television programs that were added to the schedule have also performed extremely well and they, together with the recently acquired Johnny Carson show, have helped to give us the most stable schedule in our history and, equally important, our most cost effective schedule.

In the field of Canadian programming, we are continuing to make progress in upgrading the quality level of our shows. "That's Life" is a daily half hour show dealing with actuality, people and current events. It is already being sold in other parts of Canada and we are optimistic in regard to its growth for the future. Production has just started on the pilot "Tales of the Haunted". This show will be unique in that each week five one-half hour episodes are to be produced and either shown in five separate half hours or, in the alternative, packaged and shown as a special made-for-T.V. movie. If sufficient sales are achieved in the first quarter of 1981, it will go into full production in the summer of 1981.

C.R.T.C.

On December 1, 1980, Global filed an application for a satellite network licence from the Canadian Radio-television and Telecommunications Commission. This application was filed in response to a call from the C.R.T.C. for licence applications for the extension of television service to remote and underserved communities in Canada. Global's application is based on the concept of expanding our current part time use of the Anik satellite system for the carriage of Global's nightly news to independent stations, into a full time service carrying all of Global's programming. However, we propose that only areas which do not have three alternative English language Canadian stations available would be allowed to receive and distribute Global.

Global believes that all predominately English speaking areas of Canada should now receive CBC, CTV, and a third alternative English service. Cable companies in areas without three alternative services would be required to add Global to their system to ensure that medium size cities in southern Canada do not receive fewer Canadian services than the remote and northern communities.

These southern communities would provide sufficient additional audiences for Global to justify its investment in the satellite system and to provide the much needed services in northern and remote communities.

We believe that the satellite application, if approved, will require an investment of over $4 million and reach a break-even position approximately three years after service has commenced.

We have been advised by the C.R.T.C., that they will be dealing with the application at a hearing in February, 1981 and that a decision will be forthcoming shortly thereafter.

Global has also filed a number of other applications with the Commission. These include certain amendments to our licence for the provision of service to Windsor, Ontario, a licence for the Cornwall/Maxville area of Eastern Ontario and for a number of small low power transmitters to improve our coverage in certain parts of southern Ontario.

All of these applications are important to Global and to the areas which we serve. We believe that approval by the C.R.T.C. of these applications will aid us in fulfilling the mandate of Global as set out in its original licence.

We expect that it will be late in 1981 before we have decisions in respect of all of the aforementioned applications.

In addition, the C.R.T.C. has asked for representations in the area of Canadian programming and pay television. Your Company has already filed its submission in regard to Canadian content and in due course will be doing the same with pay television. We regard our primary role in the pay television area as being a major supplier of both foreign and Canadian programming.

Senior Personnel

During the year, Peter Viner resigned from his position as Corporate Vice-President of Global to become Executive Vice-President and General Manager of CKVU-TV in Vancouver. Peter's contribution to Global, almost from its inception, has been most valuable and his presence will be missed. We wish him well in his new position and look forward to strengthening an already healthy relationship with CKVU through his presence there.

Also during the past year, Mr. William Cunningham, Vice-President of Global News and Public Affairs, resigned. Bill deserves credit for providing to Global News the strong image and respect that serves it so well today. He has been replaced by Mr. Ray Heard, as General Manager of News and Public Affairs.

Outlook

The first quarter of the 1981 fiscal year resulted in record revenues and income for our television operation. However, consolidated net income will be reduced by the continuing losses in the soccer division.

For the balance of the current fiscal year, we expect the television network's results to continue to grow subject to no further worsening of the economy. Advance bookings for air time are running well ahead of any previous year and if they maintain the present level it is anticipated that the results for the television network will, for the entire year, match the record results of the first quarter.

On behalf of ourselves, the Board of Directors and our Shareholders, we would like to thank all Global management and staff for their efforts during the past year. They are appreciated and most important to all of us.

We look forward to seeing you at our Annual Meeting on February 20, 1981, where this report will be updated and expanded.

Respectfully submitted on behalf of the Board of Directors.

I.H. Asper, Q.C.
Chairman of the Board

P. G. Morton,
President

December 19, 1980

CONSOLIDATED BALANCE SHEET

Global Communications Limited

(Continued under the Canada Business Corporations Act)

ASSETS	August 31	
	1980	1979
Current:		
Accounts receivable	$ 6,981,271	$ 7,756,554
Film, program and player rights (note 1(b))	13,862,741	13,283,659
Record and tape inventory		2,782,840
Prepaid expenses, videotape and other supplies	768,277	1,719,967
	21,612,289	25,543,020
Future income tax recoverable (note 4)	3,300,000	1,200,000
Non-current portion of film, program and player rights (note 1(b))	17,777,516	17,452,851
Fixed, at cost (note 1(c)):		
Land and buildings	809,952	809,952
Transmitter, studio, mobile and technical equipment	11,938,346	11,442,067
Leasehold and land improvements	1,738,346	1,713,419
	14,486,644	13,965,438
Less accumulated depreciation and amortization	7,192,626	5,956,101
	7,294,018	8,009,337
Other:		
Excess of cost of investment in subsidiary over fair value of tangible assets at date of acquisition, net of amortization (note 2)		992,812
Investment and advances		17,650
North American Soccer League franchise at amortized cost (note 1(e))	1,977,742	2,135,206
	1,977,742	3,145,668
	$51,961,565	$55,350,876

On behalf of the Board:

"I.H. Asper", Director

"P.G. Morton", Director

(See accompanying notes to consolidated financial statements)

LIABILITIES

	August 31 1980	August 31 1979
Current:		
Bank indebtedness (note 5)	$ 6,957,215	$ 4,791,294
Accounts payable and accrued liabilities	6,726,443	12,442,495
Provision for interest on 1974 Series B Debentures (note 6(b))		1,034,210
Instalment on Bank Income Debenture and Bank term loan (note 5)	2,000,000	1,050,000
Film and program contract instalments due within one year	16,483,900	14,937,053
	32,167,558	34,255,052
Long-term (notes 5, 6 and 7):		
Bank term loan	3,952,500	1,500,000
Liabilities of discontinued operations (note 2)	4,454,907	
Bank Income Debentures	3,850,000	5,250,000
Non-current instalments on film and program contracts, and other liabilities	6,747,406	10,707,085
1974 Series A Debenture due January 15, 1983	7,425,000	7,675,000
1974 Series B Debentures due January 15, 1998	100,000	100,000
10% Subordinated Debentures due January 15, 1983	8,335,350	8,335,350
Loans payable	405,870	405,870
	35,271,033	33,973,305
Total liabilities	67,438,591	68,228,357
Deficiency in shareholders' equity:		
Capital (note 8) —		
Authorized:		
200,230 voting preferred shares without nominal or par value		
2,000,000 common shares without nominal or par value		
Issued:		
185,230 preferred shares	9,262	9,262
665,211 common shares (1979 — 665,161 common shares)	3,242,483	3,242,133
	3,251,745	3,251,395
Deficit	(18,728,771)	(16,128,876)
	(15,477,026)	(12,877,481)
	$51,961,565	$55,350,876

AUDITORS' REPORT

To the Shareholders of
Global Communications Limited:

We have examined the consolidated balance sheet of Global Communications Limited as at August 31, 1980 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at August 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 24, 1980.

Clarkson Gordon
Chartered Accountants

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Global Communications Limited

	Year ended August 31	
	1980	1979 (note 2)
Revenue:		
Air time	$ 34,230,282	$ 28,818,322
Production and other	7,387,255	4,674,286
Professional sports	1,182,144	800,212
	42,799,681	34,292,820
Operating expenses:		
Operating, general and administrative	36,955,378	28,155,550
Depreciation and amortization	1,409,626	1,324,320
	38,365,004	29,479,880
Interest (other than interest on income debentures):		
Bank term loan	461,683	
Bank operating loan	666,435	150,305
1974 Interest Debentures		167,772
10% Subordinated Debentures (note 6 (c))	833,535	833,533
Other	4,086	13,505
	1,965,739	1,165,115
Less interest recovered from record division	168,490	82,736
	1,797,249	1,082,379
Total expenses	40,162,253	30,562,259
Income from continuing operations before the following	2,637,428	3,730,561
Provision for income taxes (note 11)	2,967,041	2,456,611
Income (loss) from continuing operations before interest on income debentures and extraordinary item	(329,613)	1,273,950
Interest on income debentures:		
Bank Income Debentures	545,551	527,327
1974 Series A Debentures (note 6(a))	694,168	503,501
1974 Series B Debentures (note 6(b))	38,535	1,080,989
	1,278,254	2,111,817
	(1,607,867)	(837,867)
Loss from discontinued operations of record subsidiaries, net of related income tax recoverable of $2,100,000 (1979 — $1,200,000) (note 2)	(3,959,069)	(2,071,139)
Loss before extraordinary item	(5,566,936)	(2,909,006)
Extraordinary item:		
Income tax recovery arising from utilization of prior period losses	2,967,041	2,456,613
Loss for the year (note 8(d))	(2,599,895)	(452,393)
Deficit, beginning of year	(16,128,876)	(15,676,483)
Deficit, end of year	$(18,728,771)	$(16,128,876)

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Global Communications Limited

	Year ended August 31	
	1980	1979
		(note 12)
Source of funds:		
Total funds provided from (applied to) continuing operations	$ (116,378)	$ 486,453
Disposal of fixed assets	214,897	8,312
Term loan	2,452,500	1,500,000
Extraordinary item — income tax recovery	2,967,041	2,456,613
Total funds provided	5,518,060	4,451,378
Application of funds:		
Funds applied to discontinued operations	611,350	3,271,139
Funds applied (net) in financing non-current portion of film, program and player rights — Increase in non-current portion of film, program and player rights	324,665	8,682,266
(Increase) —decrease in long-term portion of related liabilities	3,959,679	(3,822,146)
Acquisition of subsidiary		1,729,336
Provision for Bank Income Debenture instalments	1,400,000	1,050,000
Principal repayment of 1974 Series A Debenture	250,000	225,000
Purchase of fixed assets	815,603	1,053,485
Total funds applied	7,361,297	12,189,080
Decrease in working capital	(1,843,237)	(7,737,702)
Working capital deficiency, beginning of year	(8,712,032)	(974,330)
Working capital deficiency, end of year	$(10,555,269)	$ (8,712,032)
Represented by:		
Current assets	$ 21,612,289	$25,543,020
Less current liabilities	32,167,558	34,255,052
	$(10,555,269)	$ (8,712,032)

(See accompanying notes to consolidated financial statements)

1. Summary of accounting policies

The financial statements of Global Communications Limited ("Global") and its subsidiary corporations have been prepared by management in accordance with generally accepted accounting principles consistently applied. A precise determination of many assets and liabilities is dependent upon future events, and therefore, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the corporation and of its subsidiaries but exclude the accounts of the corporation's record subsidiaries whose operations were discontinued or disposed of during the year (note 2).

(b) Film, program and player rights

The corporation enters into various contracts to acquire film and programming rights. Liabilities under the contracts, which are generally payable in instalments over periods of up to five years, are reflected in the consolidated balance sheet when the contracts are signed, with the related costs recorded as assets. Such costs are allocated between current and non-current assets based on estimated usage in the succeeding fiscal year, are charged to operations over the anticipated period of broadcast use, and are written off when deemed to be of no value. Costs of films included in film and program rights are written off on a weighted cost per play basis.

The purchase cost of player rights is amortized over the estimated time the player is expected to play for the club.

(c) Depreciation and amortization

Depreciation and amortization are provided at rates designed to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Buildings	5%
Transmitter, studio, mobile and technical equipment	$7\frac{1}{2}$% - 20%
Leasehold and land improvements	4% - 10%

(d) Income taxes

The corporation follows the tax allocation method of providing for income taxes.

(e) Amortization of NASL franchise

The value attributed to the North American Soccer League franchise is being amortized over forty years. The franchise was acquired during the 1979 fiscal year.

2. Discontinued Operations

During the year, Global discontinued the operations of Tee Vee Records Inc. (Canada) and Cachet Records Inc., its two Canadian based record subsidiaries. Global also sold its American based record subsidiary, Tee Vee Records, Inc. (U.S.A.), effective on August 29, 1980.

The consolidated statement of loss and deficit has been segregated to separately disclose the results of discontinued operations of the record segment. Revenue from

discontinued operations was $16,835,000 (1979 - $20,949,004) during the year. The loss on discontinued operations includes an amount of $992,812 relating to the write-off of the excess of cost of investment over fair value at date of acquisition.

The net liabilities of the discontinued record subsidiaries (which include a bank loan of $2,900,000) are classified as long term as the corporation will finance the payment of this amount by a bank term loan repayable quarterly commencing in fiscal 1982.

The 1979 consolidated statement of loss and deficit has been reclassified to conform with the current year's presentation.

3. Reorganization of soccer interests

During the year additional treasury shares of Prosoccer Limited were acquired at a total cost of $2,442,990, of which $1,000,000 related to the conversion of loans to the subsidiary into treasury shares; and $1,442,990 related to a purchase of shares under a rights offering. These transactions increased Global's interest in Prosoccer Limited to 91.86% from 86.70%.

One of the corporation's subsidiaries is obligated to purchase a further 850,000 common shares of Prosoccer Limited at the option of the holders at a price equal to the higher of fair market value or up to 50¢ per share.

4. Income taxes

At August 31, 1980 consolidated losses aggregating approximately $5,690,000 were available to be applied against income of future years, as follows:

Amount available	Available to apply against income earned to August 31
$ 441,000	1981
25,000	1982
3,000	1983
1,575,000	1984
3,646,000	1985
$5,690,000	

Also, capital cost allowances and other timing differences of approximately $1,500,000 were available for carry forward indefinitely.

Future income taxes recoverable of $3,300,000 in aggregate have been recorded on losses incurred by a wholly-owned subsidiary whose operations were discontinued in the current year as the corporation is virtually certain of recovering future income taxes on these losses.

5. Bank indebtedness

Under the terms of its banking agreements, the corporation may borrow up to $14,500,000 by way of term debt and up to $6,000,000 by way of an operating loan ($5,310,000 outstanding at August 31, 1980). At August 31, 1980, $5,250,000 of term debt had been utilized by way of Secured Income Debentures, Series A ("Bank Income Debentures") of Global and $4,552,500 by way of a term loan.

The Bank Income Debentures, which qualify as "income debentures" under the Income Tax Act (Canada), bear interest at the rate of 2% plus one-half of the bank's prime lending rate, but such interest is payable ony to the extent that Global itself has "cumulative net profit", as defined. The term loans bear interest at a rate of 1½% plus prime. The term debt may be prepaid in whole or in part without bonus or other penalty. The Bank Income Debentures are repayable in quarterly principal instalments in the following aggregate annual percentages:

Year ending August 31	Percent
1981	20%
1982	25%
1983	30%

(the percentage for 1983 includes a final instalment of 7½%). The term debt is repayable in quarterly principal instalments over the period ending August 31, 1988.

The bank advances outstanding from time to time are supported by a demand debenture with a first fixed and floating charge on substantially all of Global's assets and a pledge of shares of Global subsidiaries.

The agreements with the bank contain various conditions and restrictive covenants as to which any defaults by Global as at August 31, 1980 were waived by the bank. These covenants include a restriction on the payment of any dividends without the prior approval of the bank.

6. Debentures

(a) 1974 Series A Debenture due January 15, 1983

The 1974 Series A Debenture bears interest in respect of each fiscal year or portion thereof at an annual rate equal to one-half of the bank's prime lending rate plus 2%. Interest is payable only to the extent of "available profit" as defined in the Trust Deed. This debenture is collateralized by a floating charge on all of Global's assets, subject only to prior claims and security held by Global's bankers and ranks pari passu with $5.80 of each $45.00 (or an aggregate of $1,074,334 at August 31, 1980) of principal amount of the 10% Subordinated Debentures outstanding from time to time. On January 15, 1980 a partial redemption of this Debenture in the amount of $250,000 was effected.

A major shareholder, Global Ventures Western Ltd., holds the Debenture.

(b) 1974 Series B Debentures due January 15, 1998

The 1974 Series B Debentures bear interest payable at rates applied to unconsolidated pre-tax earnings of Global for the immediately preceding fiscal year, which rates reduce annually by 1% from 25% in 1980 to 20% for 1985 and subsequent years. This interest is subordinate to that under the Bank Income Debentures (note 5). Such interest, when payable, is due on January 15 of the following year, and bears interest at 10% per annum from the end of the fiscal year until date of payment and which payments amounted to $38,535 in 1980.

A major shareholder, Global Ventures Western Ltd., holds 95.5% of the debentures.

As a result of losses on the investments in and advances to the record division there is no provision for interest under these debentures for 1980.

The 1974 Series B Debentures are collateralized by a floating charge on all of Global's assets, subordinate to the 1974 Series A Debenture and the bank indebtedness.

(c) 10% Subordinated Debentures due January 15, 1983

The 10% Subordinated Debentures bear interest at 10% per annum, payable semi-annually.

The 10% Debentures carry a floating charge on the assets of Global in Ontario and are subordinate to the interests of the bank and to the 1974 Series A and Series B Debentures, except for $5.80 of each $45.00 (or a total of $1,074,334 at August 31, 1980) of principal amount ranking pari passu with the 1974 Series A and Series B Debentures.

7. Instalments of bank term loan, Bank Income Debentures and film and program contracts

Payments required in each of the next five years to repay the following long-term liabilities outstanding at August 31, 1980 are as follows:

	1981	1982	1983	1984	1985
Bank term loan	$ 600,000	$1,100,000	$1,600,000	$700,000	$552,500
Bank Income Debentures	1,400,000	1,750,000	2,100,000		
Instalments payable on film and program contracts	16,483,900	4,168,732	2,108,908	49,445	
	$18,483,900	$7,018,732	$5,808,908	$749,445	$552,500

The film and program contract liabilities are incurred in the normal course of business and these will normally be met through air time revenues generated.

8. Share capital

(a) Restrictions on share transfers

The Board of Directors may make such rules and regulations from time to time as it deems necessary or appropriate to enforce the special statutory provisions applicable to constrained share corporations as set forth or referred to in Global's charter. Under the Broadcasting Act (Canada), in effect 80% of the voting shares of Global and other corporations holding a broadcasting licence must be owned by Canadians.

(b) Voting preferred shares

The voting preferred shares were issued in units with the 10% Subordinated Debentures and are to be purchased, at 5¢ each, for cancellation upon the redemption or discharge of the related debentures by the corporation or on purchase by its subsidiaries.

(c) Common shares, share option and warrants

During the year 50 common shares were issued at $7 each, upon the exercise of 50 outstanding share purchase warrants of the corporation.

The corporation has reserved 238,789 authorized but unissued common shares for issuance, as follows:

(i) To the holders of remaining warrants to purchase shares at $7 each, exercisable to January 1, 1983	224,789 shares
(ii) On the exercise of an option to purchase shares at $7 each at any time to January 15, 1983	14,000 shares

The common shares of the corporation now outstanding and to be issued on exercise of the above option and warrants, are subject to deposit under the terms of a Voting Trust and Option Agreement which expires on January 15, 1983.

(d) Loss per share

	Year ended August 31	
	1980	1979
Basic:		
Loss before extraordinary item	$(8.37)	$(4.37)
Extraordinary item	4.46	3.69
Loss for the year	$(3.91)	$(0.68)

No fully diluted per share calculation is provided as the company incurred a loss for the year and any exercise of warrants or option would be anti-dilutive.

9. Commitments and other matters

(a) Real property lease

The corporation's head office, network control centre and production facilities in Metropolitan Toronto have been leased on a net basis with Global Ventures Western Ltd., a shareholder, for a period of twenty-five years expiring December 31, 1998 (with options to renew for two further five-year periods) at an annual rental of $652,500. The annual rental is to be adjusted by 50% of the increase in the cost of living index in 1989.

The lease provides that the corporation may buy or be required to buy the property at the higher of market price or $5,800,000 being the purchase cost in 1979 to Global Ventures Western Ltd.

(b) Other commitments — operating leases

The corporation has other material annual commitments in the normal course of business in various amounts excluding the real property lease referred to in note 9 (a) as follows:

Year ending August 31	Minimum lease payments
1981	$1,144,427
1982	1,130,254
1983	534,567
1984	212,000
1985	160,000
	$3,151,248

(c) Broadcast licence

The corporation carries on its operations under the terms of a broadcast licence. Such licences are issued by the Canadian Radio-television and Telecommunications Commission for periods of up to five years, and are subject to renewal. The corporation's current broadcast licence expires on September 30, 1981.

10. Related party transactions

In addition to the related party transactions referred to in the previous notes, the corporation also has provided financing to Canvideo Television Sales Limited ("Canvideo"), an affiliate of its major shareholder. Canvideo acts as the corporation's sales representative in certain territories. The corporation has paid sales commissions during the year of $318,000 to this affiliate, and at August 31, 1980 net advances to the affiliate were $349,000.

11. Segmented information

The corporation operates primarily in two industries which have been classified by the Board of Directors as communications and professional sports. The communications industry involves the operation of the Global Television Network,

including the sale of air time and operation of production facilities. The professional sports industry involves the operation of the 'Blizzard' soccer team in the North American Soccer League.

	Communications	Professional Sports	Consolidated
Revenue	$41,617,537	$ 1,182,144	$42,799,681
Operating profit (loss)	$ 6,979,261	$ (2,544,584)	$ 4,434,677
Interest expense			(3,075,503)
Loss from discontinued operations			(3,959,069)
Provision for income taxes			(2,967,041)
Extraordinary item: Income tax recovery arising from utilization of prior period losses			2,967,041
Net loss			$ (2,599,895)
Identifiable assets at August 31, 1980	$48,707,852	$ 3,253,713	$51,961,565
Capital expenditures during 1980	$ 750,934	$ 210,845	
Depreciation and amortization during 1980	$ 1,409,629	$ 19,602	

12. Comparative figures

Certain 1979 comparative figures have been reclassified to conform to the presentation adopted in 1980.

CONSOLIDATED SEVEN YEAR FINANCIAL SUMMARY

Global Communications Limited

	Year ended August 31						
Operating Results (000's)	1980	1979 (Restated)	1978	1977	1976	1975	1974
Revenues	$ 42,799	$ 34,293	$ 29,976	$ 22,084	$ 15,444	$ 8,554	$ 2,917
Operating expenses	36,955	28,156	22,183	16,632	13,751	11,224	17,858
Depreciation	1,410	1,324	1,116	995	960	911	519
Interest-net	1,797	1,082	1,573	1,432	1,572	1,217	346
Income (loss) before taxes and income debenture interest (See below*)	2,637	3,731	5,104	3,025	(839)	(4,798)	(15,806)
Income taxes	2,967	2,457	2,446	1,468	—	—	—
Income (loss) before income debenture interest and extraordinary items	(330)	1,274	2,658	1,557	(839)	(4,798)	(15,806)
Income debenture interest	1,278	2,112	1,731	1,144	—	—	—
Income (loss) from continuing operations before extraordinary items	(1,608)	(838)	927	413	(839)	(4,798)	(15,806)
Loss from discontinued operations net of income tax recoverable	(3,959)	(2,071)	—	—	—	—	—
Income (loss) before extraordinary items	(5,567)	(2,909)	927	413	(839)	(4,798)	(15,806)
Extraordinary items	2,967	2,457	2,446	1,858	—	—	2,211
Net income (loss)	$ (2,600)	$ (452)	$ 3,373	$ 2,271	$ (839)	$ (4,798)	$(13,595)
Earnings (loss) Per Share							
Basic —							
Before extraordinary items	$(8.37)	$(4.37)	$1.39	$0.62	$(1.26)	$(7.21)	$(23.76)
Extraordinary items	4.46	3.69	3.68	2.79	—	—	3.32
For the year	$(3.91)	$(0.68)	$5.07	$3.41	$(1.26)	$(7.21)	$(20.44)
Fully diluted —							
Before extraordinary items			$1.06	$0.50			
Extraordinary items			2.70	2.15			
For the year			$3.76	$2.65			

*INCOME (LOSS) BEFORE TAXES AND INCOME DEBENTURE INTEREST BY DIVISION (000's) (note)

	1980	1979	1978	1977	1976	1975	1974
Television and production division	$ 5,860	$ 5,086	$ 5,104	$ 3,025	$ (839)	$ (4,798)	$(15,806)
Professional sports division and related investment costs	(3,223)	(1,355)	—	—	—	—	—
	$ 2,637	$ 3,731	$ 5,104	$ 3,025	$ (839)	$ (4,798)	$(15,806)

NOTE
Excludes the results from discontinued operations of record division

GLOBAL COMMUNICATIONS LIMITED
Consolidated Statement of Changes in Financial Position
Six Months ended February 28, 1978
(with comparative figures for 1977)

(Unaudited)	1978	1977
	(000's)	
SOURCE OF FUNDS:		
Operations—		
Income before extraordinary items	$ 460	$ 272
Add charge not resulting in a current outlay of funds		
Depreciation and amortization of fixed assets	549	504
Total funds provided by operations	1,009	776
Recovery of income taxes payable on income before extraordinary items due to application of loss carry forwards of prior years	1,237	884
Issue of—		
Series A Income Debentures		7,000
Less repayment of term bank loan		(2,800)
		4,200
Reduction in deposits and other non-current assets		89
	2,246	5,949
APPLICATION OF FUNDS:		
Funds applied (net) in financing non-current film and program rights	1,366	1,075
Less decrease in non-current portion of related rights	(1,302)	(863)
	64	212
Purchase of fixed assets—net	228	561
Repurchase of 10% subordinated debentures and related preferred shares		1,291
Repurchase of non-interest bearing subordinated notes		340
Provision for interest on 1974 income debentures related to extraordinary items ($141,000), less non-current portion thereof ($100,000)		41
	292	2,445
Increase in working capital	1,954	3,504
Working capital (deficiency), beginning of period	(1,398)	(4,086)
Working capital (deficiency), end of period	$ 556	$ (582)
Represented by:		
Current assets	$11,045	$7,504
Less current liabilities	10,489	8,086
	$ 556	$ (582)

AR40

GLOBAL COMMUNICATIONS LIMITED

INTERIM REPORT

Six months ended February 28, 1978

To the Shareholders:

The financial results of your Company for the six months ended February 28, 1978 continue to reflect the Company's progress. Revenue increased from $11,323,000 to $14,753,000, an increase of 30% over the previous year. Income before extraordinary items was $460,000 compared to $272,000 for the same period last year. Final net income for the period increased to $1,697,000 in the current period as a result of the inclusion of $1,237,000 arising from income taxes recovered from the application of prior period losses.

Our working capital at $556,000 is now on a positive basis for the first time.

Operating costs increased by approximately 28% during the period, again primarily due to higher programming costs.

Air time bookings for the balance of the fiscal year remain consistent with our expectations.

Toronto, Ontario
April 7, 1978

I. H. ASPER
Chairman of the Board

PAUL MORTON
President

GLOBAL COMMUNICATIONS LIMITED
Consolidated Statement of Income
Six Months ended February 28, 1978
(with comparative figures for 1977)

(Unaudited)	1978	1977
	(000's)	
Revenue	$14,753	$11,323
Operating expenses:		
Programming, broadcasting and maintenance	8,195	6,021
Administration, marketing and occupancy	2,634	2,365
Depreciation and amortization	549	504
Interest expense—net	797	632
Total expenses	12,175	9,522
Income before the following	2,578	1,801
Provision for income taxes	1,237	884
Income before interest on income debentures and extraordinary items	1,341	917
Interest on income debentures:		
Interest on Series A Income Debentures	213	180
Provision for interest on 1974 income debentures	668	465
	881	645
Income before extraordinary items	460	272
Extraordinary items:		
Income tax recovery arising from utilization of prior period losses	1,237	954
Gain on repurchase of 10% subordinated debentures, net of deferred income taxes of $120,000	—	379
Gain on repurchase of non-interest bearing subordinated notes, net of deferred income taxes of $70,000	—	76
Provision for interest on 1974 income debentures relating to extraordinary items	—	(141)
	1,237	1,268
Net income for the period	$ 1,697	$ 1,540
Earnings per share:		
Basic—		
Income before extraordinary items	$ .69	$ .41
Extraordinary items	1.86	1.91
Net income for the period	$ 2.55	$ 2.32
Fully diluted*—		
Income before extraordinary items	$ .53	$ .33
Extraordinary items	1.41	1.44
Net income for the period	$ 1.94	$ 1.77

* Fully diluted earnings per share shows the effect on earnings per share which would result if the outstanding warrants to purchase 224,839 common shares at $7 each and the outstanding option to purchase 14,000 common shares at $7 each were all exercised at the beginning of the period. In the fully diluted earnings per share calculation, the assumption is made that the funds derived from exercising the warrants and the option had been invested to produce an annual return of 10%, before applicable income taxes and interest on income debentures.